

VZCZCXRO1293

RR RUEHBZ RUEH DU RUEHGI RUEHJO RUEHMA RUEHMR RUEHPA RUEHRN RUEHTRO
DE RUEHLS #0426/01 1671427
ZNR UUUUU ZZH
R 161427Z JUN 09 ZDK
FM AMEMBASSY LUSAKA
TO RUEHC/SECSTATE WASHDC 7058
INFO RUEHZO/AFRICAN UNION COLLECTIVE
RUEHLMC/MILLENNIUM CHALLENGE CORP 0136
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 05 LUSAKA 000426

SENSITIVE
SIPDIS

STATE PASS TO USTR (BILL JACKSON)
STATE FOR AF/EPS (ADA ADLER)
USAID FOR AFR/SD (BRUNO CORNELIO)

E.O. 12958: N/A

TAGS: [EAID](#) [ECIN](#) [ETRD](#) [PREL](#) [SENV](#) [XW](#) [XA](#) [ZU](#)

SUBJECT: COMESA LAUNCHES CUSTOMS UNION, PURSUES BROAD AND AMBITIOUS
REGIONAL AGENDA

REF: LUSAKA 312

LUSAKA 00000426 001.2 OF 005

1. (SBU) Summary. Leaders from the Common Market for Eastern and Southern Africa (COMESA) launched a customs union and a regional payment and settlement system during the recent COMESA Summit in Victoria Falls, Zimbabwe. Eight of COMESA's 19 Member States are disposed to join the Customs Union, although in the course of the three to five-year implementation period, other countries are likely to join. The COMESA delegates reiterated their commitment to merging with other regional economic communities (RECs), namely the East African Community (EAC) and the Southern African Development Community (SADC). Although economic integration dominated the meeting agenda, infrastructure development and climate change were also recurring themes. The COMESA Heads of State condemned the unconstitutional change in power in Madagascar and recognized other pockets of instability within the region, including the conflict in Darfur, piracy off the coast of Somalia, and the Eritrea-Djibouti and Sudan-Chad border disputes. They also spoke out on behalf of Sudanese President Omar El-Bashir, calling for the suspension of the International Criminal Court (ICC) indictment. With (surprisingly) little political grandstanding, Zimbabwean President Mugabe assumed the chairmanship of the COMESA Authority. End Summary.

Background

2. (U) On June 7-8, COMESA held its long overdue summit, an event that had been postponed twice in 2008 due to the Zimbabwean electoral crisis. Eight heads of state attended, including Zimbabwean President Robert Mugabe, Swazi King Mswati III, Kenyan President Mwai Kibaki, Ugandan President Yoweri Museveni, Sudanese President Omar al-Bashir, Djiboutian President Ismail Guellah, Seychellois President James Michel, and Zambian President Rupiah Banda. Most other countries were represented at the cabinet level. In defiance of Madagascar's unconstitutional change in power, COMESA invited ousted President Marc Ravalomana (referred to during the summit as "President of the Republic of Madagascar") to represent the Malagasy island nation.

3. (U) Working level meetings of the Intergovernmental Committee, two ministerials (a trade ministers meeting known as the "Council of Ministers" and a foreign ministers meeting), and a COMESA Business Council-led "Business Summit" preceded the heads of state ("COMESA Authority") summit. The decisions and recommendations of the preceding meetings fed into the COMESA Authority discussion, most of which was closed to non-COMESA participation. During the summit, President Kibaki handed over the chairmanship of the Authority to President Mugabe, who will hold the position until the next summit convenes in Mbabane in 2010 when King Mswati III will assume the

chair. Until then, the COMESA Authority will be headed by President Mugabe (chair), King Mswati III (vice-chair), and President Kibaki (rapporteur).

14. (U) COMESA emerged in 1994 out of the Preferential Trade Area for Eastern and Southern Africa (PTA). Its membership includes Libya, Egypt, Sudan, Ethiopia, Djibouti, Eritrea, Uganda, Kenya, DR Congo, Rwanda, Burundi, Zambia, Malawi, Zimbabwe, Swaziland, Madagascar, Comoros, Mauritius, and Seychelles. Angola technically still is a member, but in practice participates as an observer. The COMESA Free Trade Area (FTA), which was launched in 2000, consists of all COMESA Member States with the exception of DR Congo, Eritrea, Ethiopia, Uganda, and Swaziland. The COMESA Secretariat is based in Lusaka. Primary COMESA institutions include Eastern and Southern Africa Trade and Development Bank (PTA Bank), COMESA Re-Insurance Company (ZEP-RE), Africa Trade Insurance Agency (ATIA), COMESA Clearing House, COMESA Regional Investment Agency (RIA), COMESA Competition Commission, and COMESA Court of Justice, Federation of COMESA Women in Business Associations (FEMCOM), Alliance for Commodity Trade in Eastern and Southern Africa, and COMESA Telecommunication Company (COMTEL).

Customs Union

15. (U) The most significant achievement of the summit was the launch of the COMESA Customs Union, marking an important step toward achieving full economic integration (COMESA aims to establish a monetary union by 2018 as a prelude to the creation of a single market). Member States endorsed the legal instruments for the Customs Union and agreed on a common external tariff (CET) of zero percent on raw materials, ten percent on semi-processed ("intermediate") products, and 25 percent on finished goods. Member States consented to align their national tariffs with the COMESA CET

LUSAKA 00000426 002.2 OF 005

within three years (i.e. before June 8, 2012) -- although the Council of Ministers reserved the right to extend the period to five years (until June 8, 2014). The Council established a COMESA task force on the Customs Union and directed that during the implementation period, Member States are to submit their lists of sensitive (exempted) products to the task force. (Note: The negotiations on these lists have not yet been concluded; for the customs union to maintain relevance, COMESA will need to keep these as short as possible. End Note.)

16. (SBU) Despite the effulgence given to the launch of the Customs Union, few if any countries announced their intention to join it. The Ugandan and Rwandan delegations noted that COMESA Member States that also belong to the East African Community (EAC) (Uganda, Rwanda, Burundi, Kenya; although Tanzania is a member of the EAC, it is not a member of COMESA) need more time to consult among themselves. A COMESA Member State diplomat told emboff that eight countries will join the Customs Union, although Egypt was unlikely to be one of them. He pointed to reservations about committing to the Customs Union at this early stage, without an administrative structure in place to manage customs operations and revenue collection.

17. (SBU) Presumably, many countries also are deterred by the problem imposed by overlapping membership in other regional economic communities, including SADC, EAC (which has also launched a customs union), and the Southern African Customs Union (SACU). According to World Trade Organization rules, countries may not belong to more than one customs union. The COMESA Secretariat has attempted to resolve this difficulty by harmonizing its CET with that of EAC and announcing its intention in October 2008 of merging into a single COMESA-EAC-SADC FTA (see para 10).

18. (U) The COMESA CET may also present problems to COMESA Member States that belong to the World Trade Organization (WTO) and that previously had bound their tariffs below the COMESA CET rates. The COMESA Council of Ministers acknowledged that before these countries can implement the CET, they will need to negotiate bilaterally with WTO members with whom the bound tariffs originally were negotiated.

Additionally, some COMESA Member States that are implementing World Bank/International Monetary Fund programs may need to consult with these two institutions to ensure that the CET rates do not conflict with prior commitments.

¶9. (U) Despite these difficulties, COMESA has made provisions for some of the structural challenges accompanying joining the Customs Union. The COMESA Fund, which provides financial assistance to countries facing revenue losses during their adjustment to a Customs Union, is operational and may help mitigate the immediate financial impact on some Member States. The first disbursements will be made to Rwanda and Burundi for approximately USD 15 million and USD 6 million respectively.

Tripartite

¶10. (U) The COMESA leaders confirmed their commitment to "tripartite" cooperation, referring to the October 2008 agreement in Uganda to merge EAC, COMESA, and SADC into a single REC in preparation for an African Economic Community. They identified a common FTA (followed by a common Customs Union) as the course for achieving this, but acknowledged that the Tripartite Task Force had not finalized yet its road map for fusing the three FTAs. Nevertheless, officials from all three organizations have begun harmonizing their common tariff nomenclatures and trade regulations as well as working toward the removal of non-tariff barriers. Throughout the meetings, participants emphasized repeatedly the potential benefit of tripartite partnership to increase Member States' bargaining positions in multilateral trade negotiations, notably the WTO Doha Round and the EU Economic Partnership Agreement discussions.

¶11. (U) COMESA leaders also recognized the benefits of tripartite cooperation in relation to infrastructure development, citing the recent tripartite North-South Corridor conference (reftel) as a model aid for trade initiative that should be replicated in other trade corridors. In this regard, they directed the Tripartite Task Force to organize a high level, "resource mobilization" conference for the development of the Northern Corridor (Mombasa-Goma-Kigali-Bujumbura), the Lamu-Southern Sudan-Ethiopia Corridor, the Djibouti-Addis Ababa Corridor, and the Central Corridor (Dar es Salaam-Goma) as well as other corridors in the COMESA region. COMESA also announced the establishment in Mauritius of a COMESA Infrastructure Fund as a platform for mobilizing private

LUSAKA 00000426 003.2 OF 005

and public sector resources on infrastructural development projects.

¶12. (U) Note: The tripartite partnership grew out of a U.S.-led initiative in the mid-1990s to encourage COMESA-EAC-SADC coordination on transportation issues. Initially, the RECs resisted the U.S. overtures but soon began to see the benefits (and necessity) of cooperation, particularly as most countries belong to more than one REC and tripartite discussions shifted the burden of harmonization from Member States to the RECs. End Note.

Climate Change

¶13. (U) The Council of Ministers also noted tripartite cooperation on climate change programs and noted that the COMESA Secretariat together with EAC and SADC had secured resources from the Norwegian Government and the Rockefeller Foundation to support the climate change initiatives of the three RECs. They noted the establishment of a Climate Change Unit at the COMESA Secretariat to push forward its environmental programs, which focus on conservation agriculture and deforestation, and to coordinate COMESA's contribution to a common African position in global climate negotiations.

¶14. (SBU) The topic of climate change surfaced in virtually every session of the COMESA meetings. COMESA officials linked the issue closely to food security and underscored the need to implement

mitigation programs. African inclusion in global carbon reduction efforts may also entail significant economic benefit to a region with a relatively small carbon footprint. COMESA Secretary General Sindiso Ngwenya suggested that if a post-2012 climate change regime includes provisions for the reduction of green house gas emissions by agriculture, forests, and sustainable land use, Africa could generate up to three billion dollars per year in carbon trade. The Council of Ministers also noted the Secretariat's intent to establish a Carbon Facility to fund regional mitigation efforts, perhaps with partial support from the United Nations Convention to Combat Desertification (UNCCD) Global Mechanism.

Economic Development

¶15. (SBU) Africa's response to the global economic downturn was a topic of interest, with leaders frequently underscoring to the need to promote agricultural growth in order to achieve regional food security and economic diversification. With regard to adding value to African natural resources and agricultural production, leaders reiterated the importance of expanding African manufacturing, agro-processing, and refining. Ugandan President Museveni described the export of unprocessed coffee, for example, as an economic donation to Europe. "We are the real donor countries," he quipped. Others referred to the export of raw materials as "exportation of wealth."

¶16. (U) The COMESA leaders called for the speedy implementation of the African Union's Comprehensive Africa Agricultural Development Program (CAADP) at both national and regional levels (Note: Although COMESA does not have an agricultural directorate, the New African Partnership for African Development has appointed COMESA to be the implementing institution for CAADP within the region). To achieve this, COMESA leaders endorsed the launch of the Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA), a COMESA agency that USAID/East Africa has partnered with to promote regional agricultural growth by improving agricultural policies, regulations, and procedures as well as market facilities and services.

¶17. (U) The Summit also saw the launch of the Regional Payment and Settlement System (REPSS), which aims to facilitate intra-regional trade by reducing the cost of international transactions. The REPSS, based at the central bank in Mauritius, will also reduce the time it takes to complete an international transaction to 24 hours. There was also a renewed call to strengthen public-private partnerships as well as to implement COMESA energy programs and seek investment in power generation. The COMESA Authority announced the establishment of a COMESA Competition Commission in Malawi, the COMESA Telecommunications Company in Djibouti, and the Federation of Women in Business (FEMCOM) in Malawi.

Political and Security

¶18. (SBU) Although the Intergovernmental Committee, Business

LUSAKA 00000426 004.2 OF 005

Council, and Council of Ministers focused almost entirely on economic issues, the foreign ministers and heads of state allegedly devoted most of their closed door meetings to regional political and security issues. Their subsequent strong public statements on these topics set this summit apart from those that preceded it and suggest that COMESA may intend to take a more prominent role on peace and security issues in the future. Delegates frequently identified political stability as a prerequisite for regional integration and expressed interest in COMESA support to election monitoring. They also urged Member States to enhance conflict prevention through the establishment of an effective Conflict Early Warning System and to take a more active role in post-conflict reconstruction and development issues.

¶19. (SBU) Despite many references to good governance, however, the topic of corruption went virtually unmentioned throughout the meetings. Instead, heads of state drew attention to piracy off the

coast of Somalia and border disputes (Sudan-Chad and Eritrea-Ethiopia). They also "unconditionally rejected and condemned in the strongest terms" the unconstitutional change of government in Madagascar and called for a return to constitutional rule. The urged Sudan to work with the United Nations and African Union to solve the Darfur conflict. The Authority congratulated Mugabe and Tsvangirai for establishing a government in Zimbabwe and called upon the international community to lift "all declared and undeclared" sanctions. Most notably, the COMESA Authority expressed concern about the International Criminal Court (ICC) indictment of Sudanese President al-Bashir and endorsed the African Union position to call for the ICC to suspend its indictment.

¶20. (SBU) COMESA elected the first five members of a "Committee of Elders" to prevent and mitigate regional conflicts and to complement the African Union "Panel of the Wise." The committee ultimately will consist of nine members who will serve staggered two-year terms. COMESA foreign ministers will choose the remaining four members at the COMESA meetings in Mbabane in 2010. The five elected representatives are Immaculee Nahayo (Burundi), Soad Shalaby (Egypt), Bethuel Kiplagat (Kenya), Anund Priyay Neewoor (Mauritius), and Atem Garang Deng Deduek (Sudan).

Comment

¶21. (SBU) With COMESA internal trade increasing from USD 3.2 billion in 2001 to USD 15.2 billion in 2008, COMESA's integration programs are certainly relevant if not effective. Intra-COMESA trade as a percentage of total trade, however, remains small (at four percent in 2007). True integration ultimately should reflect regional interdependence, with Member States benefitting from - and seeking out trade relationships with -- neighboring economies as much as they do European, North American, and Asian markets. A fully functioning Customs Union and REPSS will be invaluable to achieving higher levels of intra-regional commerce. Although infrastructure development will bring down production and transportation costs, cross-border trade facilitation requires commitment to reducing or removing non-tariff barriers and greater political-level engagement and follow-through.

¶22. (SBU) By increasing its agricultural productivity, the COMESA region can contribute to African food security and help meet rising global consumer demand. To this effect, the USG will continue to provide regional support through USAID/East Africa. COMESA's ability to succeed, however, will depend largely on the actions of its Member States, many of which continue to discourage agricultural investment by their market-distorting export bans on staple products. Although the Secretariat has recommended policy reforms, it lacks the human resources as well as the authority to enforce existing agreements and commitments. Some of the newly established COMESA institutions, such as ACTESA and the Association for Strengthening Agricultural research in Eastern and Central Africa (ASARECA) could help influence national policies. A more cohesive U.S. regional strategy for Eastern and Southern Africa might integrate more effectively USG diplomatic and developmental engagement.

¶24. (SBU) As COMESA broadens its role to include infrastructural development, climate mitigation, and peace and security, it is redefining its original mandate (from economic growth and integration and socio-economic development) to one of "increased cooperation and integration in all fields of development." According to its mission statement, this includes transport, communications, information, industry, energy, information, agriculture, environment, natural resources, and gender matters -- all "under an environment of peace and security." Some COMESA

LUSAKA 00000426 005.2 OF 005

donors are privately questioning whether COMESA may be stepping up to fill the gap created by SADC's waning efficacy and credibility. Either way, COMESA's economic leadership gives its political messages greater urgency and lends its partnership with the United States greater appeal.

